

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03
INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 SP-02 CIEP-01
LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01 IO-13
/093 W

-----210317Z 118165 /71

R 201640Z JAN 77
FM AMEMBASSY ROME
TO SECSTATE WASHDC 2266
DEPT TREASURY WASHDC
INFO USMISSION EC BRUSSELS

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E.O. 11652: N/A
TAGS: EFIN, IT
SUBJECT: CONVERSATION WITH TREASURY MINISTER STAMMATI

SUMMARY: STAMMATI DESCRIBED TO ECMIN HIS CONCERNS ON THE LIRA, GOVERNMENT EXPENDITURES AND LABOR COSTS. HE SAW NECESSITY FOR EARLY RESOLUTION OF LABOR COST PROBLEM SO THAT GOI CAN CONCLUDE IMF STANDBY BY END OF FEBRUARY. STAMMATI HOPES TO VISIT WASHINGTON TO MEET WITH SECRETARY BLUMETHAL IN NEAR FUTURE. END SUMMARY.

1. IN DINNER CONVERSATION WITH ECMIN JANUARY 19, TREASURY MINISTER STAMMATI DESCRIBED HIS CONCERNS AS FOLLOWS ON WHAT HE TERMED THE THREE MOST IMMEDIATE ECONOMIC ISSUES FACING ITALY:

(A) THE LIRA. WHILE CONCEDING THAT THE LIRA HAD HELD UP QUITE WELL THIS WEEK, I.E., SINCE DROP IN PRIOR DEPOSIT FROM 40 PERCENT TO 25 PERCENT AND FRACTIONAL REDUCTION IN FOREIGN EXCHANGE TAX, STAMMATI SAW LATE FEBRUARY AS BEING CRUCIAL PERIOD BECAUSE LIRA WILL BE LARGELY "UNCOVERED" WHEN PRIOR DEPOSIT IS LOWERED TO 10 PERCENT ON MARCH 1, BY WHICH TIME FOREIGN
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EXCHANGE TAX WILL HAVE EXPIRED. SINCE CONFIDENCE AND EXPECTATIONS ARE SIGNIFICANT CONTRIBUTORS TO DETERMINATION OF VALUE OF LIRA, IT IS VERY IMPORTANT THAT PRESENT UNCERTAINTY OVER ECONOMIC POLICIES AND SITUATION (PARTICULARLY WITH REFERENCE TO LABOR COSTS AND IMF STANDBY--SEE BELOW) BE OVERCOME. STAMMATI DID NOT VIEW ITALY'S FOREIGN EXCHANGE POSITION AS COMFORTABLE. RATHER, HE POINTED OUT THAT NON-GOLD RESERVES

BARELY COVER COMMERCIAL FOREIGN DEBT DUE IN 1978 (ABOUT \$3 BILLION). THE NECESSITY, HE SAID, IS FOR GOI TO KNOW WHERE LIRA EXCHANGE RATE WILL "SETTLE".

(B) GOVERNMENT EXPENDITURE. STAMMATI CONFIRMED THAT HE WAS CONCENTRATING EFFORTS ON PROBLEM OF LOCAL GOVERNMENT BUDGETARY DEFICITS. HE STATED THAT ALTHOUGH HE WAS UNDER SEVERE PRESSURE FROM SOME LOCAL GOVERNMENTS (HE SPECIFICALLY MENTIONED TURIN'S PCI MAYOR) TO PROVIDE ASSISTANCE WITH THEIR FINANCIAL PROBLEMS, CONTINUATION OF THE EXISTING SITUATION OF LARGELY UNCONTROLLED BORROWING HAD TO BE TERMINATED. CORE OF STAMMATI'S PROPOSAL IS CONSOLIDATION BY CASSA DEI DEPOSITI E PRESTITI OF LOCAL GOVERNMENT SHORT-TERM DEBT AT 15 PERCENT INTEREST (ON 10 YEAR BONDS) INSTEAD OF PREVAILING 24 PERCENT COMMERCIAL BANK SHORT-TERM CREDIT. ACCORDING TO STAMMATI, LOCAL GOVERNMENTS ARE PRESSING FOR 9 PERCENT INTEREST RATE (ON 35 YEAR BONDS), WHICH WOULD BE HIGHLY CONCESSIONARY AND OBVIOUSLY IMPOSSIBLE. APART FROM SHORT-TERM DEBT CONSOLIDATION, FIRST STEPS MUST BE TAKEN TO LEVY CONTROLS OVER LOCAL GOVERNMENT SPENDING.

(C) LABOR COSTS. STAMMATI READILY AGREED IT WAS UNFORTUNATE FOR PSYCHOLOGICAL AS WELL AS SUBSTANTIVE REASONS THAT AGREEMENT HAD NOT BEEN REACHED ON SOME BOLD, CLEAR MEASURES TO CONTROL INCREASE IN LABOR COSTS, E.G., DELAY IN PERIODIC ADJUSTMENT OF SCALA MOBILE FROM QUARTERLY TO SEMI-ANNUALLY, RATHER THAN PROCEEDING ON BASIS OF SERIES OF LESS CLEAR-CUT AND LESS EASILY CALCULABLE MEASURES DESIGNED TO ADD UP TO REASONABLY SIGNIFICANT LIMIT ON INCREASE IN LABOR COSTS. HE NOTED LIMITED OFFICIAL USE

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THE MANY PROPOSALS WHICH HAD BEEN MADE BY UNION CONFEDERATIONS, SOME OF WHICH WOULD CONTRIBUTE TO REDUCING LABOR COSTS. HOWEVER, HE WAS DOUBTFUL THAT UNION-INDUSTRY NEGOTIATIONS COULD PROGRESS BEYOND THAT POINT (HE GAINED THAT IMPRESSION FROM BRIEF TELEPHONE CONVERSATION WITH CONFINDUSTRIA PRESIDENT CARLI THAT DAY AND FROM WHAT HE DESCRIBED AS NECESSITY FROM UNION LEADERS TO POSTURE). ACCORDINGLY, HE CLEARLY FELT THAT IT WAS TIME FOR GOI TO TAKE ACTION TO RESOLVE LABOR COST ISSUE -- A VIEW WHICH WAS ALSO EXPRESSED BY FINANCE MINISTER PANDOLFI IN SEPARATE CONVERSATION WITH ECOMIN. STAMMATI MENTIONED HIS OWN PROPOSAL, WHICH HE SAID UNIONS HAD REJECTED, I.E., LIMITATION OF ESCALATOR POINTS IN 1977 (NOW ESTIMATED AT AROUND 24) TO 16, WHICH WOULD BE GRANTED PREFERABLY ON DIMINISHING BASIS OR ELSE 4 POINTS EACH QUARTER. ON THIS PROPOSAL, AS ON OTHERS, STAMMATI REMARKED IT WAS DIFFICULT TO KNOW THE "REAL" ATTITUDE OF LABOR.

2. STAMMATI FELT STRONGLY THAT IT WAS ESSENTIAL FOR GOI TO CONCLUDE STANDBY AGREEMENT WITH IMF BY END OF FEBRUARY. HE

INDICATED THAT LABOR COST WAS REMAINING OUTSTANDING ISSUE AND
THEREFORE NECESSARY FOR GOI TO MOVE TOWARD SOLUTION. STAMMATI
REMARKED THAT STANDBY WAS IMPORTANT NOT SO MUCH FOR \$1 BILLION
ITALY WOULD OBTAIN BUT FOR CERTIFICATE OF "GOOD CONDUCT" WHICH
IMF WOULD GIVE ITALY. HE NOTED THAT ATTITUDE OF U.S. WOULD
BE CRITICAL IN DETERMINING IMF POLICY AND IN THAT CONNECTION
HE REMARKED THAT HE HOPED TO VISIT WASHINGTON IN NEAR FUTURE
TO MEET WITH TREASURY SECRETARY BLUMENTHAL. VOLPE

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FINANCIAL STABILITY, DIPLOMATIC DISCUSSIONS, LIRA
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Sent Date: 20-Jan-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977ROME00946
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
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Format: TEL
From: ROME
Handling Restrictions: n/a
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Legacy Key: link1977/newtext/t19770132/aaaabcv.gv
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Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
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Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3547016
Secure: OPEN
Status: NATIVE
Subject: CONVERSATION WITH TREASURY MINISTER STAMMATI SUMMARY: STAMMATI DESCRIBED TO ECMIN HIS CONCERNS ON THE LIRA, GOVERNMENT EXPENDITURES AND LABOR COSTS. HE
TAGS: EFIN, IT, US, IMF, (STAMMATI)
To: STATE TRSY
Type: TE
vdkgvkey: odbc://SAS/SAS.dbo.SAS_Docs/e2e307d4-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009